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RRB Financial Reports

The Railroad Retirement Board is required by law to submit annual financial reports and triennial actuarial valuations to Congress on the financial condition of the railroad retirement system, as well as annual financial reports on the railroad unemployment insurance system. These reports must also include recommendations for any financing changes which may be advisable in order to ensure the solvency of the systems. In June, the Board submitted its 22nd Actuarial Valuation of the railroad retirement system's assets and liabilities and its financial report on the rail unemployment insurance system.

The following questions and answers summarize the findings of these reports.

1. How much money was in the railroad retirement and railroad unemployment insurance trust funds last year?

By the end of fiscal year 2002, the net position of the railroad retirement trust funds was $18.7 billion, while that of the railroad unemployment insurance system was $15.8 million.

2. What was the overall finding of the 22nd triennial actuarial valuation of the financial condition of the railroad retirement system?

The valuation, which addressed railroad retirement financing during the next 75 years, was generally favorable, concluding that, barring a sudden, unanticipated, large decrease in railroad employment or substantial investment losses, the railroad retirement system will experience no cash-flow problems during the next 19 years. The long-term stability of the system, however, is not assured. Under the current financing structure, actual levels of railroad employment and investment returns over the coming years will determine whether additional corrective action is necessary.

3. What methods were used in forecasting the financial condition of the railroad retirement system?

The valuation projected the various components of income and outgo of the railroad retirement system under three employment assumptions, utilizing different patterns of changes and decreases in the railroad work force for the 75 calendar years 2002-2076. The projections of these components were combined and the investment income calculated to produce the projected balances in the railroad retirement accounts at the end of each projection year.

Projecting income and outgo under optimistic, moderate and pessimistic employment assumptions, the valuation indicated no cash-flow problems occur throughout the 75-year projection period under

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the optimistic and moderate assumptions. Cash-flow problems do occur under the pessimistic assumption. However, even under that assumption the cash-flow problems do not occur until 2022.

4. Did the 22nd valuation of the railroad retirement system recommend any railroad retirement payroll tax rate changes?

The report did not recommend any change in the rate of tax imposed by current law on employers and employees. The absence of projected cash-flow problems for at least 19 years under each employment assumption indicated that an immediate increase in tax rates is not required. However, because of future financial problems occurring under the pessimistic employment assumption, a decrease in tax rates was not recommended.

5. What were the findings of the 2003 report on the financial condition of the railroad unemployment insurance system?

The Board's 2003 railroad unemployment insurance financial report was also generally favorable. Even as maximum benefit rates increase 44 percent (from $52 to $75) from 2002 to 2013, experience-based contribution rates are expected to maintain the unemployment insurance system's solvency. A small loan made in fiscal year 2002 was repaid in its entirety in May 2003, and no new loans are anticipated.

Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. However, the system's experience-rating provisions, which adjust contribution rates for changing benefit levels, and its surcharge trigger for maintaining a minimum balance help to ensure financial stability in the advent of adverse economic conditions.

Under the experience-rating provisions, each employer's contribution rate is determined by the Railroad Retirement Board on the basis of benefit payments made to the railroad's employees. The report predicted that, even under the most pessimistic assumption, the average employer contribution rate remains well below the maximum throughout the projection period.

The report also predicted that the 2.5 percent surcharge that is in effect in calendar year 2003 would revert to 1.5 percent in calendar years 2004-2005. A 1.5 percent surcharge is also probable in 2006.

6. What methods were used to evaluate the financial condition of the railroad unemployment insurance system?

The economic and employment assumptions used in the unemployment insurance report corresponded to those used in the report on the retirement system. Projections were made for various components of income and outgo under each of three employment assumptions, but for the period 2003-2013, rather than a 75-year period.

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7. Did the 2003 report on the railroad unemployment insurance system recommend any financing changes to the system?

No financing changes were recommended at this time by the report.

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The Railroad Retirement Board's 22nd actuarial valuation and its 2003 financial report on the unemployment insurance system are available in their entirety on the Board's Web site at www.rrb.gov.